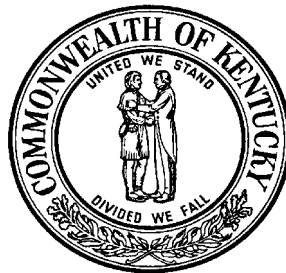


**REPORT OF THE AUDIT OF THE  
PENDLETON COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2001**



**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE PENDLETON COUNTY SHERIFF**

**For The Year Ended  
December 31, 2001**

The Auditor of Public Accounts has completed the Pendleton County Sheriff's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

Excess fees increased by \$9,108 from the prior calendar year, resulting in excess fees of \$26,544 as of December 31, 2001. Revenues increased by \$47,021 from the prior year and disbursements increased by \$37,913.

#### **Report Comments:**

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$206,617 To Protect Deposits
- The Sheriff's Office Should Perform All Auto Inspections and Collect The Appropriate Fee For Services Provided
- Lacks Adequate Segregation Of Duties

#### **Deposits:**

As of November 6, 2001 the Sheriff's deposits were uninsured and uncollateralized by \$206,617.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Henry W. Bertram, Pendleton County Judge/Executive

Honorable Lark O'Hara, Pendleton County Sheriff

Members of the Pendleton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Pendleton County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Henry W. Bertram, County Judge/Executive  
Honorable Lark O'Hara, Pendleton County Sheriff  
Members of the Pendleton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$206,617 To Protect Deposits
- The Sheriff's Office Should Perform All Auto Inspections And Collect The Appropriate Fee For Services Provided
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 20, 2003

PENDLETON COUNTY  
LARK O'HARA, COUNTY SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

Federal Grants (Note 6)	\$	38,470
State Fees For Services:		
Finance and Administration Cabinet	\$	7,364
KLEPF	<u>14,107</u>	21,471
Circuit Court Clerk:		
Sheriff Security Service		6,125
Fiscal Court		
Transporting Prisoners	\$	39,458
Vehicle Lease	14,718	
Cruiser for Jail Transport Officer	3,000	
Uniforms for Jail Transport Officer	1,500	
Miscellaneous	<u>220</u>	58,896
County Clerk - Delinquent Taxes		4,273
Commission on Taxes Collected		130,734
Fees Collected For Services:		
Auto Inspections	\$	2,740
Accident and Police Reports	295	
Serving Papers	15,720	
10% Add on Fee	18,396	
Transporting Prisoners	<u>82</u>	37,233
Other:		
Carrying Concealed Deadly Weapon Permits		5,355
Maintenance Fund		4,660
Miscellaneous		570
Interest Earned		5,125

The accompanying notes are an integral part of the financial statement.

PENDLETON COUNTY  
 LARK O'HARA, COUNTY SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Year Ended December 31, 2001  
 (Continued)

Receipts (Continued)

Borrowed Money:

Loan from School (Cops in School)	\$	18,000	
State Advancement		53,786	
Bank Note		<u>4,700</u>	\$ 76,486

Total Receipts			\$ 389,398
----------------	--	--	------------

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	75,362
Part-Time Salaries		4,800
Other Salaries		69,919

Employee Benefits-

Employer's Share Social Security		5,797
Employer's Share Retirement		972
Employer's Share Hazardous Duty Retirement		4,909
Employer Paid Health Insurance		1,988

Contracted Services-

Copier		515
Advertising		391

Materials and Supplies-

Office Materials and Supplies		3,007
Uniforms		2,388
Car Phones and Pagers		2,135
Ammunition		278

Other Charges-

Dues		336
Postage		891
Miscellaneous		686

The accompanying notes are an integral part of the financial statement.

PENDLETON COUNTY  
 LARK O'HARA, COUNTY SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Year Ended December 31, 2001  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges (Continued)

Phones	\$	1,806	
Fiscal Court (Serving Papers)		4,660	
Training		601	
Carrying Concealed Deadly Weapon Permits		3,595	
Auto Expense			
Gasoline and Transport		12,688	
Maintenance and Repairs		10,171	
Capital Outlay			
Radio		2,449	
Debt Service			
State Advancement		53,786	
Bank Loan		4,700	
Vehicle Lease		14,718	
Loan from School (Cops in School Grant)		18,000	
		<u>18,000</u>	\$ 301,548
Net Receipts			\$ 87,850
Less: Statutory Maximum			<u>61,306</u>
Excess Fees Due County for 2001			\$ 26,544
Payments to County Treasurer - January 10, 2002			<u>26,544</u>
Balance Due at Completion of Audit			<u>\$ 0</u>

The accompanying notes are an integral part of the financial statement.

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months of the year and 6.41 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent for the first six months and 16.28 percent for the last six months of the year.

PENDLETON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2001  
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 6, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$206,617 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 6, 2001.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 2,000,000
	100,000
FDIC Insured	
Uncollateralized and uninsured	<u>206,617</u>
Total	<u><u>\$ 2,306,617</u></u>

Note 5. Lease

On September 1, 2000, the Pendleton County Sheriff entered into a 36 month lease-purchase agreement with the Ford Motor Company for two 2000 Ford Crown Victoria Police Sedans. The agreement calls for three annual payments of \$14,923 due each September 1, with the first payment paid on September 1, 2000. The balance as of December 31, 2001 was \$13,843.

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2001  
(Continued)

Note 6. Federal Grants

The Pendleton County Sheriff's Office received two federal grants. The first grant was a COPS Universal Hiring Grant. The purpose of this grant is to pay a portion of the salary of one full time officer. The total award amount was \$61,074. The grant period for this grant is May 1, 1999 through April 30, 2002. The total received and expended during calendar year 2001 was \$12,750. The Pendleton County Sheriff's Office also received a COPS In School Grant. The purpose of this grant is to pay the salary of one full time officer to be deployed into the school. The total award amount was \$106,763. The total received and expended during 2001 was \$25,720.

## COMMENTS AND RECOMMENDATIONS



PENDLETON COUNTY  
LARK O'HARA, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2001

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$206,617 To Protect Deposits
- 

On November 6, 2001, \$206,617 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Sheriff's Response:*

*Taken care of.*

2. Sheriff's Office Should Perform All Auto Inspections And Collect The Appropriate Fee For Services Provided
- 

During a test of auto inspections, auditor determined that there were more auto inspections performed than were recorded on the receipts ledger. It was discovered at that time that the Sheriff's office was leaving signed auto inspection forms at the County Clerk's office. These were to be used for auto inspections performed in the County Clerk's office when the County Clerk's office was open and the Sheriff's office was closed. It was also discovered that there were auto inspections performed where the fees were not properly collected. KRS 186A.115(1)(a) requires the inspection of motor vehicles and documents by certified inspectors who are designated by the county sheriff. KRS 186A.115(1)(b)(c) states 'there shall be a five dollar (\$5) fee for this certification, payable to the sheriff's office, upon completion of certification and there shall be an additional fee of ten dollars (\$10) per trip when it becomes necessary for the certified inspector to travel to the site of the vehicle rather than bringing the vehicle to the sheriff's inspection.' We recommend that the Sheriff comply with this statute in the future by using only certified inspectors and collecting appropriate fees for services provided.

*County Sheriff's Response:*

*Will be stopped.*

PENDLETON COUNTY  
LARK O'HARA, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2001  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation duties. However, the Auditor of Public Accounts has judged the lack of an adequate segregation of duties as a reportable condition and a material weakness.

The following are some compensating controls, which could offset a lack of adequate segregation of duties:

1. Strong and direct supervision by the official over receipts
  - Cash periodically recounted and deposited by the official
  - Surprise cash counts by the official
  - Periodic reconciliation of other monthly reports to source documents and receipts and disbursement ledgers
2. Strong and direct supervision by the official over disbursements
  - All disbursement checks to be signed by two people, with one being the official
  - Official examines payroll checks prepared by another employee and distributes checks to employees
  - Other disbursement checks prepared by another employee are examined by the official for proper documentation
  - Official mails disbursements
3. General Areas
  - Employees are cross-trained
  - Employees are required to take mandatory vacations
  - Official prepares or examines and verifies bank reconciliation

*County Sheriff's Response:*

*No response noted.*

PENDLETON COUNTY  
LARK O'HARA, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2001  
(Continued)

PRIOR YEAR:

- Sheriff Should Deposit Receipts Daily

*This comment has been corrected and is not repeated in the current year.*

- Lacks Adequate Segregation Of Duties

*This comment has not been corrected and is repeated in the current year.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

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Members of the Pendleton County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Pendleton County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated March 20, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Pendleton County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and are described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$206,617 To Protect Deposits
- Sheriff's Office Should Perform All Auto Inspections And Collect The Appropriate Fee For Services Provided



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pendleton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 20, 2003

